

Message Text

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PAGE 01 HONG K 03206 01 OF 02 110810Z
ACTION EA-12

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AMEMBASSY SINGAPORE
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AMEMBASSY TOKYO

LIMITED OFFICIAL USE SECTION 1 OF 2 HONG KONG 3206

CINCPAC FOR POLAD

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TAGS: ECON, EAGR, EIND, EINV, CH
SUBJECT: HUA DISCUSSES CHINA'S TEN-YEAR DEVELOPMENT PLAN

REF: HONG KONG 3077

SUMMARY. HUA KUO-FENG'S WORK REPORT TO THE NATIONAL PEOPLE'S CONGRESS CONFIRMED THE RESTORATION OF PRE-CULTURAL REVOLUTION POLICIES ON MATERIAL INCENTIVES PLANNING, ENTERPRISE ORGANIZATION AND MANAGEMENT. HUA VOICED THE HOPE THAT WITH TIGHTER DISCIPLINE AND BETTER PLANNING, PEKING CAN INCREASE INVESTMENT IN AGRICULTURE AND FIND THE FINANCIAL WHEREWITHAL TO CONSTRUCT 120 PROJECTS DESIGNED TO ELIMINATE STRUCTURAL BOTTLENECKS IN

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PAGE 02 HONG K 03206 01 OF 02 110810Z

THE ECONOMY (I.E., STEEL, FUEL, ELECTRIC POWER AND TRANSPORTATION) WHICH HAVE LONG HINDERED STABLE GROWTH. HUA LAID DOWN AMBITIOUS ANNUAL GROWTH TARGETS OF 4-5 PERCENT FOR AGRICULTURE AND OVER 10 PERCENT FOR INDUSTRY. BY 1985, GRAIN OUTPUT SHOULD REACH 400 MILLION TONS (IT WAS ESTIMATED AT 250 MILLION TONS IN 1977) AND STEEL PRODUCTION AT 60 MILLION TONS (ABOUT 22 MILLION TONS IN

1977). ANTIQUATING THE REACTIONS OF MANY, HUA CAUTIONED HIS LISTENERS NOT "TO UNDERESTIMATE FAVORABLE CONDITIONS, OR TO THINK THIS OR THAT IS IMPOSSIBLE...THIS SPLENDID PLAN OF OURS CAN BE FULFILLED." END SUMMARY.

1. AGRICULTURE. HUA OPENED HIS DISCUSSION OF AGRICULTURE BY CONCEDING THAT CHINA IS CURRENTLY SO NEAR THE MARGIN OF SUBSISTENCE "THERE WILL BE REALLY SERIOUS TROUBLE IN THE EVENT OF MAJOR NATURAL CALAMITIES." HE ACKNOWLEDGED THE COUNTRY MUST ACCELERATE ITS AGRICULTURAL GROWTH RATE, AND FOR THE FIRST TIME OFFICIALLY CONFIRMED THAT PEKING WILL INCREASE AGRICULTURE'S SHARE OF STATE INVESTMENT. THESE ADDED EXPENDITURES WILL PROVIDE NEW WORKING CAPITAL TO LOWER-LEVEL RURAL UNITS FOR BRINGING ABOUT THE QUICKEST POSSIBLE MECHANIZATION OF AGRICULTURE. PEKING WILL ALSO ASSIST CAPITAL FORMATION AT THE VILLAGE LEVEL BY MANIPULATING THE PRICE TERMS OF TRADE IN FAVOR OF AGRICULTURAL PRODUCTS, WHILE SIMULTANEOUSLY REDUCING PRICES AND INCREASING AVAILABILITIES OF AGRICULTURAL INPUTS FROM INDUSTRY (TRACTORS, CHEMICAL FERTILIZERS, ETC.).

2. AS AN INCENTIVE FOR FARMERS, HUA REAFFIRMED THE RIGHT TO PRIVATE PLOTS AND TO SELL PRIVATE PRODUCE AT RURAL MARKETS.

3. HE ANNOUNCED MORE PRAGMATIC GOALS FOR AGRICULTURE THAN IN THE PAST. THE NEW 1985 GRAIN TARGET IS 400 MILLION METRIC

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PAGE 03 HONG K 03206 01 OF 02 110810Z

TONS, AND THE AVERAGE ANNUAL GROWTH RATE OF AGRICULTURAL OUTPUT (IN VALUE TERMS, GVAO) IS TARGETED AT 4-5 PERCENT DURING 1978-1985. ALTHOUGH AMBITIOUS, THESE TARGETS ARE MORE REALISTIC THAN PREVIOUS GOALS REQUIRING AN ANNUAL GROWTH RATE ABOVE 8.5 PERCENT. ALSO, HUA DEFERRED UNTIL 1985 ANOTHER 1980 TARGET TO BUILD ONE MOU (ONE SIXTEENTH OF A HECTARE) OF HIGH AND STABLE YIELD LAND PER CAPITA OF FARM POPULATION.

4. HE LISTED A SERIES OF OTHER MEASURES TO INCREASE OUTPUT, INCLUDING THE ACCELERATION OF LAND RECLAMATION, IMPROVED AGRICULTURAL RESEARCH AND EXTENSION SERVICES, THE ASSIGNMENT OF COMPETENT CADRE TO "POOR" AGRICULTURAL UNITS, AND INCREASED STATE INVESTMENT IN LARGE-SCALE WATER CONSERVATION PROGRAMS, SUCH AS THE YELLOW RIVER PROJECT (DETAILS BY SEPTEL).

5. INDUSTRY. HUA IMPLIED INDUSTRY'S SHARE OF STATE INVESTMENT WILL NOT INCREASE. INSTEAD, HE DECLARED A "BATTLE OF ANNIHILATION" ON UNECONOMICAL AND INEFFICIENT OUTLAYS. INDUSTRIAL GROWTH DURING THE NEXT EIGHT YEARS -- "AND ESPECIALLY IN THE NEXT THREE YEARS" -- MUST BE ACHIEVED THROUGH RENOVATION AND TECHNICAL INNOVATION AT EXISTING

PLANTS.

6. PEKING HOPES TO LIMIT NEW INVESTMENT TO 120 MAJOR PROJECTS DESIGNED TO REMOVE PERSISTENT STRUCTURAL BOTTLENECKS CAUSED BY WEAK PERFORMANCE IN THE STEEL, POWER, FUELS, RAW AND SEMI-FINISHED MATERIALS, TRANSPORT AND COMMUNICATIONS INDUSTRIES (DETAILS BY SEPTEL).

7. THE DEFENSE INDUSTRY. EVIDENTLY THIS CHANGE IN THE STRUCTURE OF INVESTMENT SIGNALS LITTLE OR NO INCREASE IN THE SHARE GOING TO THE DEFENSE INDUSTRY. HUA INSTRUCTED THE INDUSTRY TO FULLY UTILIZE EXISTING CAPACITY, AND EXERT "EFFORTS" IN RESEARCH AND TRIAL PRODUCTION.

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PAGE 04 HONG K 03206 01 OF 02 110810Z

8. LIGHT INDUSTRY. THERE WILL BE LITTLE NEW INVESTMENT IN LIGHT INDUSTRY; HOWEVER, HUA INDICATED PEKING WILL ATTEMPT TO REDUCE THAT SECTOR'S DEPENDENCE ON AGRICULTURE BY SUPPLYING IT MORE AGRICULTURAL SUBSTITUTES, SUCH AS CHEMICAL FIBERS AND PLASTICS.

9. LOCATION POLICY. NEW PROJECTS WILL BE CONCENTRATED IN THE LESS-DEVELOPED INLAND PROVINCES TO PROVIDE A FOUNDATION FOR THE FUTURE DIVISION OF THE COUNTRY INTO SIX ECONOMIC ZONES. ALSO, PEKING WILL NOT ABANDON ITS "WALKING ON TWO LEGS" STRATEGY TO SIMULTANEOUSLY DEVELOP A CAPITAL-INTENSIVE MODERN INDUSTRIAL SECTOR AND LABOR-INTENSIVE, SAMLL-SCALE INDUSTRRIES IN RURAL AREAS. HUA SAID, HOWEVER, THAT MEDIUM AND SMALL ENTERPRISES MUST BE INTEGRATED INTO THE PLANNING PROCESS TO PREVENT COMPETITION WITH THE MODERN DECTOR FOR INDUSTRIAL INPUTS.

10. FINANCES. TO FINANCE THE TEN-YEAR PLAN, HUA INDICATED PEKING WILL ATTEMPT TO ACCELERATE GREATLY THE RATE OF SAVINGS. HE ASSERTED THAT "STATE REVENUE IN THE NEXT EIGHT YEARS WILL BE THE EQUIVALENT TO THE PAST TWENTY-EIGHT YEARS." THIS MEANS REVENUE MUST GROW AT AN AVERAGE ANNUAL RATE OF 15 PERCENT, A SIGNIFICANTLY FASTER PACE THAN IN THE PAST, AS INDICATED BY THE FOLLOWING:

AVERAGE ANNUAL GROWTH OF STATE REVENUE

1978-1985 TARGET 15

EST. 1950- 1977 11

EST. 1958-1973 7

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PAGE 01 HONG K 03206 02 OF 02 110808Z
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FM AMCONSUL HONG KONG
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LIMITED OFFICIAL USE SECTION 2 OF 2 HONG KONG 3206

CINCPAC FOR POLAD

11. ENTERPRISE PERFORMANCE INDICATORS. TO OBTAIN HIGHER BUDGET REVENUES, PEKING MUST REDOUBLE ITS EFFORTS TO INCREASE PROFITS AND ACCUMULATION FROM ALL SECTORS OF THE ECONOMY, ESPECIALLY PROFITS FROM STATE-OWNED ENTERPRISES WHICH ANNUALLY ACCOUNT FOR AS MUCH AS 90 PERCENT OF TOTAL REVENUE. HUA EMPHASIZED THAT PROFITS WILL BE THE MAIN INDICATOR OF ENTERPRISE PERFORMANCE, BUT ALSO HELD MANAGERS ACCOUNTABLE FOR ACHIEVING FIVE OTHER TARGETS: INCREASED OUTPUT; IMPROVED QUALITY; HIGHER LABOR PRODUCTIVITY; LOWER PRODUCTION COSTS; AND LOWER UNIT CONSUMPTION OF RAW MATERIALS.

12. SERIOUS ECONOMIC CONSEQUENCES ARE LIKELY TO RESULT FROM THIS CHOICE OF PERFORMANCE GUAGES. IF THESE ARE SET TOO HIGH, THEY ARE LIKELY TO ADVERSELY AFFECT PRODUCT QUALITY. ALSO, BY STRESSING HIGHER LABOR PRODUCTIVITY THROUGH AUTOMA-

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PAGE 02 HONG K 03206 02 OF 02 110808Z

HIGH, THEY ARE LIKELY TO ADVERSELY AFFECT PRODUCT QUALITY. ALSO, BY STRESSING HIGHER LABOR PRODUCTIVITY THROUGH AUTOMA-

TION, THE GROWTH OF JOB OPPORTUNITIES IN INDUSTRY MAY DECLINE, A FACT WHICH HUA MAY HAVE ACKNOWLEDGED BY STATING THAT "MANY MORE YOUTHS WILL BE GOING TO THE COUNTRYSIDE."

13. LABOR AND MANAGEMENT POLICY. HUA CONFIRMED PEKING'S LONG-ANTICIPATED RETURN TO THE PATTERN OF ENTERPRISE ORGANIZATION OF THE 1950'S AND EARLY 1960'S. FACTORY DIRECTORS WILL MANAGE DAILY PLAN OPERATIONS UNDER THE OVERALL DIRECTION OF PARTY BRANCH COMMITTEES. IN MOST ENTERPRISES, PEKING WILL SCRAP THE REVOLUTIONARY COMMITTEES, INITIALLY A CULTURAL REVOLUTION REFORM DESIGNED TO INCREASE THE WORKERS' SENSE OF PARTICIPATION IN THE DECISION-MAKING PROCESS. TO BOOST WORKER MORALE, HUA ANNOUNCED THAT PEKING WILL DRAFT NEW LABOR AND WAGE POLICIES BASED ON MATERIAL INCENTIVES, SUCH AS BONUSES AND PIECE-RATES (SEPTEL).

13. GROWTH RATES. HUA SET AMBITIOUS GROWTH RATES FOR INDUSTRY, AS WELL AS AGRICULTURE. INDUSTRIAL OUTPUT (IN VALUE TERMS GVIO) MUST GROW AT AN ANNUAL RATE HIGHER THAN 10 PERCENT, AND BY 1985 INDUSTRY MUST PRODUCE 60 MILLION TONS OF STEEL PER YEAR (IT PRODUCED ABOUT 22 MILLION TONS IN 1977). ANTICIPATING THE REACTIONS OF MANY, HUA SAID, "THERE IS NO REASON TO BE APATHETIC, TO UNDERESTIMATE FAVORABLE CONDITIONS, OR TO THINK THIS OR THAT IS IMPOSSIBLE...THIS SPLENDID PLAN OF OURS CAN BE FULFILLED."

14. COMMENT:THE TEN-YEAR PLAN IS AMBITIOUS, PARTICULARLY IN THE AREA OF FINANCING. SUCCESS OR FAILURE WILL DEPEND ON MANY FACTORS. SOME, SUCH AS THE WEATHER, ARE BEYOND PEKING'S CONTROL. IN THE FINAL ANALYSIS, SUCCESS WILL DEPEND ON THE CURRENT LEADERSHIP'S ABILITY TO DEVELOP A CORPS OF COMPETENT LIMITED OFFICIAL USE

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PAGE 03 HONG K 03206 02 OF 02 110808Z

AND PROFESSIONAL MANAGERS. PEKING REALIZES THIS, AND REPORTEDLY IS BRINGING OUT OF RETIREMENT MANY PROFESSIONALS DISGRACED DURING THE CULTURAL REVOLUTION. THERESE WILL STILL BE A SHORTAGE OF WELL-TRAINED PEOPLE, HOWEVER, AND WITHOUT THEM PEKING MAY HAVE DIFFICULTY IMPLEMENTING ITS NEW POLICIES. SHOESMITH

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